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Chiang Finds More Signs of Fiscal Abuse in Montebello

SACRAMENTO – State Controller John Chiang today released his [final review](#) of the City of Montebello, exposing possible pension spiking, payroll errors, a loose petty cash drawer, and systemic problems in the City's internal controls of its Finances.

"Lax spending controls and poor bookkeeping contributed greatly to Montebello's recent fiscal distress," said State Controller John Chiang. "While the roots of Montebello's problems are different from Bell's, they both share the common trouble of having little or, at times, no accountability in their spending of public dollars.

The review found that the City's practices were not adequate to protect taxpayer dollars in the control areas of financial integrity and ethics, commitment and competence, and management and operations. Of the 74 control measures reviewed, only eight (11 percent) were considered to be adequate. Auditors used standards adopted by the American Institute of Certified Public Accountants in their evaluation of the City.

Some of the largest errors were found in the City's handling of personnel matters. On April 15, 2007, the Montebello City Council voted to terminate its City Administrator. The City Administrator contested the termination, was placed on administrative leave and continued to receive a monthly salary of \$10,934. On November 2, 2007, he reached a termination settlement agreement with the City. But the Human Resources office never implemented the settlement agreement, and continued to treat the Administrator as a full-time employee, thereby inappropriately crediting additional time toward his retirement.

On January 16, 2008, the City Council, now including two new members as part of a recall election, "re-hired" the Administrator with a 49 percent salary increase (bringing his monthly pay to \$16,250). The administrator retired two years later. This could be a large case of pension spiking, since he was the only official to receive a salary increase of this magnitude and his monthly retirement benefits rose by \$4,000. The Controller's Office has asked the California Public Employees Retirement System (CalPERS) to look into the matter.

The City also mishandled the retirement for its Director of Community Development, whose employment was terminated through a mutual agreement with the City on July 18, 2006. The City agreed to pay 12 months' severance including salary, benefits and retirement, and -- even though a terminated employee can no longer earn service credit -- the City credited those 12 months towards the Director's retirement. In 2007, CalPERS reviewed the records and instructed the City to reverse those credits. However Montebello staff members did not make those adjustments until June 2011, when auditors from the Controller's Office raised the issue as part of their investigation.

The Controller found that some staff members were allowed full access to the human resources system and the programs controlling payroll (which control time-card data and generate checks), allowing either system to be manipulated and abused for personal gain.

In the Controller's most recent review of the Montebello Redevelopment Agency, the report noted that a previous City Administrator approved his own petty cash reimbursements for questionable expenses. Further reviews showed a police officer also circumventing petty cash policy. The police officer made a purchase of food for approximately \$250 for a city function. While reimbursement claim from petty cash are limited to \$100, the officer had the restaurant break up the approximately \$250 purchase into three different receipts.

Other problems found in the City's personnel transactions included several failures to follow tax reporting rules. The City gave retention bonuses of \$5,000 to full-time employees (\$2,500 to part-time employees) in 2008, totaling \$2 million. It also gave additional stipends as "miscellaneous" income to City councilmembers for board meeting attendance. Yet none of these payments were properly reported to the Internal Revenue Service, as they were instead considered "miscellaneous" payments instead of bonuses. The City also failed to withhold and deduct the appropriate payroll tax on these amounts.

Generally, the Controller's review found a lack of reliability, accuracy, and timeliness in the City's data. Specifically, the review notes:

- Differences between bank statement and general ledger amounts
- Unreconciled outstanding checks
- Missing deposit slips for the city transit department
- Untimely recording of corrections to payroll checks
- Bank accounts established for the RDA were not included in that agency's financial records

As in past review, the Controller also noted that some funds may have been impaired by commingling them with the other funds and the City's general fund. While Montebello officials contend that special funds were never impaired, they could not provide documentation to prove that restricted accounts outside the General Fund were not used by the city for cash-flow purposes throughout the course of the fiscal year.

This is the final in a series of four audits the Controller will perform for the City of Montebello. The previous audits focused on the city's [Redevelopment Agency](#), its [gas tax fund](#), and its use of [State and Federal dollars](#).

"The objective of this review was to identify the internal problems that destabilized Montebello's fiscal footing, and provide a roadmap to recovery," said Chiang. "To its credit, Montebello has embraced the majority of my office's findings and has agreed to implement the necessary reforms."

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